DEPARTMENT OF REHABILITATION
Business Enterprise Program

Common Audit Findings

The following is a list of common audit findings compiled from departmental final audit reports of several Business Enterprise Program (BEP) vendors.

Net Sales - Monthly Operating Report (MOR) Line #3

Gross Receipts (MOR-Line #1)

- Insufficient documentation to support Net Sales reported on the MOR such as no sales receipts and no system is in place to ensure a separate accounting of sales for each vending machine.

- Supporting documentation for Gross Receipts contained inaccuracies resulting in an over or under-reporting of Net Sales. Examples include:
    - Accounting records contained number transposition errors, duplicate posting entries, and missed postings
    - Gross Receipts recorded on the Daily Cash Transactions Month End Report did not match with vending machine meter readings.
    - Vending machine meter readings were not reconciled to the actual cash collected from each vending machine.

State Sales Tax (MOR Line #2)

- State Sales Tax was incorrectly calculated and/or could not be fully supported by accounting records. Examples include:
    - A “calculated” sales tax was reported on the MOR rather than actual sales tax collected.
    - Sales tax was calculated using a method that is inconsistent with Board of Equalization regulations.
    - A single sales tax rate was used rather than the appropriate sales tax rate for the type of item sold, i.e., coffee cart, catering or vending machine item).

Cost of Goods Sold (MOR Line #8)

- Insufficient documentation to support Cost of Goods Sold reported on the MOR. Examples include:
  - No adequate and clearly defined inventory processes were in place.
  - Inventory records did not specifically identify inventoried items or include the item's value, purchase date, vendor information, invoice numbers, etc.

- Incorrect reporting of Merchandise Purchases and Inventory resulted in an over or under-reporting of Cost of Goods Sold. Examples include:
  - Merchandise Purchases were recorded inaccurately or on the wrong MOR line item.
  - Merchandise Inventory were reported based on estimated costs rather than actual costs.
  - No systems were in place to track and monitor loss of merchandise due to spoilage, theft, etc.

Payroll Expenses (MOR Line #15)

- Insufficient documentation to support the number of hours an employee worked or the hourly wage paid. Examples:
  - Timesheets did not include the employee's name, starting and ending times, dates, number of hours worked, breaks and lunch, and signatures.

Operating Expenses (MOR Line #27)

- Accounting and record keeping system is insufficient to account for, track, and support expenses reported on the MOR and provide for an effective audit trail.

  - No invoice or sales receipts to support the purchase of supplies.
  - No system in place to track and record mileage expenses.
  - Reported expenses were not allowable or could not be reconciled with documentation provided.
  - Accounting records contain number transposition errors, duplicate posting entries, and missed postings.
  - Lack of documentation to support that prior approval was obtained before repairs were made to vending machines, which deemed the expenses unallowable.